

Michael J. Uda
Uda Law Firm, P.C.
7 West Sixth Street
Power Block West, 4H
Helena, MT 59601
Telephone: (406) 457-5311
Email: michaeluda@udalaw.com

Attorney for Petitioner FLS Energy and Cypress Creek Renewables

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of Application for
Approval of Avoided Cost Tariff Schedule
QF-1

UTILITY DIVISION

DOCKET NO. D2016.5.39

**PREFILED ADDITIONAL ISSUES TESTIMONY OF GEORGE SCOTT ON BEHALF
OF FLS ENERGY AND CYPRESS CREEK RENEWABLES**

Q. Please state your name, occupation, and employer?

A. My name is George Scott. I am a Senior Vice President and Senior Credit Officer at Fifth Third Bank. I am responsible for the underwriting, portfolio management and credit quality for the commercial middle market banking segment in the south region of the bank and am also the senior credit officer responsible for the Renewable Energy credit portfolio. In my capacity as senior credit officer for renewable energy, I approve the credit structures that Fifth Third provides to clients in the renewable energy industry. I also oversee the underwriting and portfolio management of these renewable energy assets.

Q. On whose behalf are you providing this testimony?

A. I am providing this testimony on behalf of FLS Energy and Cypress Creek Renewables.

PREFILED ADDITIONAL ISSUES TESTIMONY OF GEORGE SCOTT

Q. What is the purpose of your testimony?

A. I have been asked to provide testimony on the Commission's request for additional issues testimony on Additional Issues, dated October 26, 2015. Specifically, I have been asked to testify about contract length and performance measures with respect to QF contracts.

Q. Have you testified before this Commission or any other public service commission?

A. No

Q. Please describe your experience in project finance and more specifically solar finance.

A. I have approximately 18 years of experience working with credit products in a commercial banking environment and have been employed with Fifth Third Bank since 2009 in credit risk management roles. Beginning in 2012, I was assigned the additional responsibility at Fifth Third of overseeing the commercial lending opportunities in the renewable energy industry. I was responsible for authoring our credit policy and loan structuring guidelines that we utilize in the process of lending activity in this industry. I am involved in all of our lending activity in the renewable energy industry. Since 2012, I have worked on approximately \$1.3 billion of loan originations covering at least 731 MW of solar energy asset installation. In this capacity, I have provided oversight for financed projects in at least eight states, including North Carolina, Georgia, Tennessee, Missouri, Massachusetts, Hawaii, Indiana and Oregon. I am attaching my CV hereto as Exhibit "1."

Q. Do you have an opinion about appropriate contract terms for Power Purchase Agreements ("PPAs") between utilities and qualifying facilities ("QFs")_ in order to attract reasonable financing?

A. Yes. In order for financing to be raised in an amount sufficient to properly fund the construction of solar installations, certain aspects must be present in the PPA to provide certainty

and risk mitigation to allow financing to be raised in a cost-effective manner. The key issues that affect financing include the cost of the debt, the ability to substantially reduce the risk of changes in pricing for power as well as the downside protections that are offered under the PPA such that certainty can be created around demand and price for the power generated. Specifically, these issues include length of the PPA, a fixed rate for the power sold (i.e. avoid price uncertainty), certainty of demand for the power, and credit quality of the power off-taker.

The PPA length is critical in creating sufficient time to properly amortize the debt on the project. The assets are long lived and require only minimal capital investment over time to continue producing power. Having sufficient tenor under the PPA that guarantees the purchase of the power produced at an acceptable price is critical to being able to take advantage of the cash flow generated from the sale of power and size the loan to what is required to complete the project. Typically, we like to see a term of at least 10 years for larger projects and at least 15 years for the QF-sized facilities to provide adequate time to amortize the debt required to construct the facility.

Q. What opinion, if any do you have, of price terms in a PPA that are levelized as opposed to escalating price terms over the life the PPA?

A. The rate that the power is sold under the PPA is also a critical factor. Our financing models require sufficient cash flow in the early years to handle the upfront costs, the cost of preferred return as well as still repay debt. Typically, we are somewhat indifferent to a fixed rate over the life of the contract versus a fixed rate with built-in escalators, as long as the cash flows in the early years remain sufficient to repay debt and we can avoid deferring the loan amortization into the later years. If the rate is too low in the early years, it restricts the amount of financing the

project can carry even though cash flows improve in the later years. Lack of certainty of pricing under the PPA would make it very difficult to lend against the project.

Q. What is your opinion regarding the use of “performance measures” that adjust payments to the QF in the event the “performance measures” are not met?

A. Certainty of off-take demand is another critical factor that allows the projects to be properly financed. Models are developed that make assumptions around the quantity of power that is generated at a site given the size of the installation and the positioning of the panels. When certainty of demand for all the power that is produced is provided for in the PPA, it creates more certainty around the ability to generate maximum cash flows from the project and allows the lender to maximize the amount of debt placed on the installation. Any concerns around the requirement for the off-taker to purchase less than 100% of the power produced would reduce the amount of debt that the project could support given the need for the lender to build in protections for reduced cash flow compared to full capacity. Typically, the project would be underwritten to the worst case scenario for off-taker demand, reducing the debt capacity for any farm with the ability to take less than 100% of the power produced. “Performance measures” that interfere with the certainty of demand for all power generated by the QF and thus cash flows to the QF are therefore problematic.

Q. Can you summarize your testimony?

A. Yes. In general terms, the length of the contract, which ensure revenue generation, and which do not include problematic “performance measures” which increase uncertainty for demand for power generation are generally problematic for financing. In summary, debt capital for solar installations can be maximized in situations where risks to the project are properly

mitigated. Therefore, financing opportunities that have the qualities noted above are most attractive, properly sized and appropriately priced.

Q. Does this conclude your testimony?

A. Yes.

GEORGE M. SCOTT, CFA

4406 Wordsworth Lane
Charlotte, NC 28211
<http://www.linkedin.com/in/scottgm3>

Home: (704) 367-5754
Mobile: (704) 608-5165
scottgm3@gmail.com

FINANCIAL PROFESSIONAL

Investment Analysis • Portfolio Management • Risk Management • Treasury Management

- Highly motivated risk management leader and investment professional with over sixteen years of experience managing corporate credit product investments and portfolios for large, national and regional banking institutions. Experience working with a diversity of fixed income credit products and industries.
- Significant personal strengths include idea generation, innovative approaches, product and corporate finance knowledge, personnel leadership and mentoring, team based work approach, and ability to master new concepts quickly.
- Professional specialty covering leveraged finance transactions and companies with complex capital structures.

PROFESSIONAL EXPERIENCE

FIFTH THIRD BANK

Risk Management Division, Charlotte, North Carolina

Senior Vice President, Senior Credit Officer II – Middle Market Commercial (2009 – Present)

Senior credit officer for the Middle Market corporate banking business of the Fifth Third Bank South Region (Florida, Georgia, South Carolina, North Carolina, Virginia, Tennessee and Kentucky).

- **Position Responsibilities:** Manage a team of experienced portfolio managers and credit officers within the regions and oversee the underwriting and portfolio management process within assigned territories, adjudicate the extension of credit to prospects and clients within delegated authority, assist the banking team with the structuring and underwriting of transactions, interact with internal and external reviewers as well as ensure compliance with all banking regulations as well as prudent risk management practices, and promote the growth and development of Fifth Third Bank within the region.
- **Industry and Loan Type Experience:** Consumer Products and Retail, Restaurants, Business Services, Infrastructure, Renewable Energy and Diversified Industrials. Leveraged finance for acquisition and recapitalization, working capital lines of credit, equipment term loans, commercial real estate term loans, project finance and other liquidity facilities.
- **Notable Achievements:** Received 2013 “Unsung Hero” award and 2011 Excellence in Commercial Banking award for contributions to the success of the North Carolina affiliate. Provided credit and risk management leadership to affiliate during period of high asset growth (500% growth over five years). Maintained lowest percentage of administrative rated assets within Middle Market group. Drove improved employee engagement scores for risk management team in each successive employee survey.
- **Special Project Work:** Developed credit policy and lending strategy to finance renewable energy investments in North America. Developed capital structure projection model that is used by all commercial business units. Represented Middle Market group in commercial end-to-end lending process redesign project group.

WACHOVIA SECURITIES/WELLS FARGO CORPORATION

Corporate and Investment Banking Division, Charlotte, North Carolina

Director, Fixed Income Division - Public Portfolio Management Group (2004 – 2009)

Selected as a founding member of a credit investment and loss mitigation team focused on active management of large corporate loan and proprietary investment portfolios. As a senior credit investment analyst and portfolio manager, selected and managed fixed income assets from the large corporate domestic and international sector (defined as companies with annual revenues in excess of \$250 million). Managed approximately \$550 million investment portfolio.

- **Position Responsibilities:** Recommended and monitored fixed income investments, identified excessive portfolio risk, designed and executed credit protection strategies and assessed security relative value.
- **Industry Experience:** Provided investment research for Homebuilding, Building Products, Automotive, Freight, Rail, Shipping, Industrial, and Steel sectors. Industry coverage universe grew as senior management saw proven ability to cover complicated industries and company situations both comprehensively and efficiently.

- **Credit Product Experience:** Underwrote and invested in investment grade and leveraged bank loans, investment grade and high yield corporate bonds, private placements, credit default swaps, international trade credit products, and treasury management products.
- **Distressed Industry Expertise:** Covered distressed industries including automotive, homebuilding and freight carriers. Correctly identified and hedged credit investments well ahead of company deterioration, resulting in significant investment gains to offset potential credit losses as companies further deteriorated. Correctly anticipated and hedged 100% of companies in assigned coverage universe that ultimately defaulted, resulting in an overall net gain to the firm when the hedge gain and loan loss were combined.

Vice President, Private Portfolio Management (2002 – 2004)

Promoted to a senior portfolio management role. Managed agency and participant credit relationships for Corporate and Investment Banking clients in the Consumer Products and Retail industry. Represented Bank's interest in credit products to corporate clients and banking syndicate members, provided oversight of financial and credit analysis prepared by analysts and associates, drafted and reviewed loan documentation, and ensured accuracy of all loan data and systems. Led underwriting and due diligence teams for renewals, amendments, and new credit facilities.

- Developed new loan servicing template for improved collection of necessary loan performance data. Senior management viewed template as a best practice and mandated its usage by all Portfolio Managers. Trained Portfolio Management staff on how to use template.
- Served as mentor for junior talent, guiding and training them on bank products, processes and financial analysis.

Associate, Corporate Loan Portfolio Management (2000 –2002)

Managed or assisted in management of lead-agent and participant credit relationships. Performed credit analysis, communicated with clients and investors and accurately graded credit exposures.

Analyst, Leveraged Lending and Portfolio Management (1998 –2000)

Assisted underwriting deal teams by preparing financial and credit analyses, financial spreadsheets and projections to complete credit due diligence packages for broad array of lead arranged syndicated leveraged loans. Assisted senior portfolio managers with management of Furnishings and Textiles industry agent credit relationships.

ARTHUR ANDERSEN LLP

Carolinas Practice, Charlotte, North Carolina

Staff Financial Analyst - Valuation Services Group (1997 –1998)

Performed discounted cash flow analysis and comparable company analysis to determine business valuations for strategic transactions and tax planning purposes. Produced detailed valuation reports to support valuation conclusions. Consulted with client's financial managers to develop business plans and projection models.

EDUCATION AND PROFESSIONAL DEVELOPMENT

Bachelor of Science - Analytical Finance, Graduated Cum Laude, 1997

WAKE FOREST UNIVERSITY - Calloway School of Business, Winston-Salem, North Carolina

- Founding President of Lambda Chi Alpha Fraternity • Treasurer of the Student Union • President's Aide
- Scholarships: Neal Monroe Chastain Memorial Scholarship and President's Aide Scholarship

Chartered Financial Analyst - Three-year, self-study, graduate-level program for investment professionals (2004 - 2006)

Securities Licensing - NASD Series 7 and 63

PERSONAL INTERESTS AND COMMUNITY INVOLVEMENT

- South Tryon Community Church Board of Advisors, Chairperson.
- Myers Park United Methodist Church. Leadership roles included Administrative Board and Children's Ministry.
- Personal Interests: Running, cycling, and travel.

CERTIFICATE OF SERVICE

I hereby certify that on the 9th day of November, 2016, I served the foregoing by first-class mail, postage prepaid mail on the following:

Kate Whitney, Administrator PSC 1701 Prospect Avenue Helena, Mt 59601	John Alke NorthWestern Energy 208 N Montana Ave Suite 205 Helena, Mt 59601
Al Brogan Northwestern Energy 208 N. Montana Ave Suite 205 Helena, Mt 59601	Tracy Killoy NorthWestern Energy 208 N. Montana Ave Suite 205 Helena, Mt 59601
Jason Brown Montana Consumer Counsel P.O. Box 201703 Helena, MT 59620	Tom Hopgood Luxan and Murfitt, PLLP P.O. Box 1144 Helena, MT 59624
Eric Christensen Caimcross Hempelmann 524 Second Avenue Suite 500 Seattle, WA 98104	Jeffrey Wagner Volkswind USA, Inc 205 SE Spokane Street Suite 306 Portland, OR 97202

By: 

Jacqueline Haskins-Legal Assistant